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Trust, Social Capital and the Coordination of Relationships between the Members of Cooperatives – A Comparison between Member-focused Cooperatives and Third-party-focused Cooperatives

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Abstract

In recent years, nonprofit scholars have increasingly studied the phenomenon of social enterprises which has become a generic term describing a wider reorientation among third sector organizations. The emergence of social enterprises has also led to a dynamic of hybridization and broadening in the cooperative sector, similar to an earlier dynamic of “economization”, but this time on the other end of the organizational spectrum. This paper aims at developing a fine-grained conceptual understanding of how this organizational dynamic is shaped in terms of member coordination, thus contributing to a more comprehensive theoretical understanding of different organizational forms of cooperatives. Specifically, to highlight the difference to traditional member-focused cooperatives, the paper introduces the term third-party-focused cooperatives for those social enterprises which emphasize economic goals as well as control and ownership by a particular community (typically place-based). The key result of the paper is that with the shift from member- to community-focus in cooperatives, the main coordination mechanism becomes one of norm-based trust on the basis of generalized reciprocity. In contrast to traditional maxim-based trust member coordination on the basis of relation-specific reciprocity, this enables third-party-focused cooperatives to mobilize bridging and linking social capital, facilitating collective action aimed towards the community interest. The findings suggest that this identity shift requires a mutual re-positioning between the cooperative and the nonprofit sector, in terms of umbrellas as well as regulatory and legislative bodies.

Keywords cooperatives, governance, reciprocity, social capital, trust

Introduction

There has been renewed political and academic interest in cooperative organizations as alternative providers of public and social services in recent years. Deregulation and liberalization tendencies have created new opportunities for cooperatives but have also redefined their traditional societal role and organizational identity. Traditional cooperatives are member-focused in their goal structure as they aim at generating economic benefits primarily for their organizational member base. Nevertheless, they constitute a distinct organizational form different from organizations in the private, for-profit sector as they are “democratic, member-owned and controlled enterprises, in which membership is open to all stakeholders and decisions are taken on the basis of one member one vote” (Somerville 2007, p. 13).

Empirical accounts from different European countries, however, highlight the recent emergence of new forms of cooperative organizations, which provide their services to a broader community, therefore acting in a quasi-public or community interest rather than being entirely member-focused in their activities. Nevertheless, they clearly constitute a cooperative identity as democratic, community-owned and controlled organization. Thus, in this paper, we refer to them as “third-party-focused cooperatives” to highlight the difference to traditional member-focused cooperatives.

For example, based on case studies from Austria and Germany, Lang and Roessl (2011) analyze cooperative initiatives which operate for the benefit of local communities by taking over the provision of amenities and services in a neighborhood, such as cafes, shops, and recreational facilities. This leads to economic, social and even psychological benefits for all local residents arising from increased opportunities for social interaction as well as local volunteering and employment opportunities on a small scale. A similar cooperative phenomenon has already earlier been observed in the Swedish context (Lorendahl 1996) and more recently in the British context (Somerville 2007; Somerville and McElwee 2011). In this respect, Somerville (2007) has coined the term “community co-operatives” describing an emerging group of community-led

organizations in the United Kingdom which clearly exhibit cooperative principles (such as collective member ownership and democratic control), but nevertheless differ in important aspects from the traditional cooperatives. Community cooperatives primarily stress the organization's accountability to the local community by improving the quality of life in the area through their delivered services (e.g. housing and connected services). Furthermore, membership is explicitly related to "residence or employment in a particular geographical area or 'community'" rather than linked to a particular economic interest in the cooperative enterprise (Somerville 2007, p. 12f).

In a similar vein, the European research stream on social enterprises has highlighted the emergence of forms of registered cooperatives which provide services to a broader community as well as acting in a general societal interest rather than being entirely member-focused in their activities (Kerlin 2006; Defourny and Nyssens 2008). These cooperative initiatives often fill the gap left by the withdrawal of the state and focus on satisfying social needs (Gonzales 2007; Kerlin 2013). The concentration of activities of these cooperatives operating, for example, in Italy, the United Kingdom, Scandinavian countries, Greece, or Portugal is mostly on the reintegration of disadvantaged persons into the labor market or on the provision of personal services (Defourny 2001).

Taking into account their explicit aim to provide goods and services for the benefit of the community by mobilizing a variety of resources, ranging from donations and voluntary work to governmental subsidies, and from market operations, as outlined by the aforementioned examples, we argue that these third-party-focused cooperatives represent hybrids between traditional cooperatives and nonprofit organizations, combining key characteristics of both organizational forms (Defourny 2001; Mancino and Thomas 2005; Spear and Bidet 2005). In line with the understanding of social enterprises as representing an organizational continuum (Defourny 2001), we would thus define third-party-focused cooperatives as those social enterprises which emphasize the entrepreneurial and economic initiative as well as control and

ownership by the members of a particular community (typically place-based or within a specific geographical area) who benefit from their services and reinvested surpluses (Lang and Roessl 2011; Somerville and McElwee 2011). In other words, these social enterprises rather stress their cooperative character, e.g. democratic member control, than their nonprofit organizational elements, e.g. the primacy of social objectives (Defourny 2001).

As Laville and Nyssens (2001) point out, the emergence of social enterprises – and thus also third-party-focused cooperatives as one particular type – should not be seen as a conceptual break with traditional organizational forms in the third sector but essentially signals a new dynamic of hybridization and broadening which is taking place in the sector. Our article builds on this observation and aims to develop a better conceptual understanding of how this organizational dynamic of hybridization is shaped in terms of member coordination. Whereas nonprofit scholars have increasingly studied and conceptualized the phenomenon of social enterprises, we believe that within the research tradition of cooperatives, a more thorough conceptual understanding of different cooperative organizational forms is needed. Specifically, from an organizational theoretical point of view, the shift from benefitting members to third parties might seem like a simple variation of the collective character of cooperatives, leading to “very subtle distinctions between social cooperatives and many traditional cooperatives” (Young and Lecy 2014, p. 1320). However, in this paper, we would argue that the coordination mechanisms of member-focused cooperatives and third-party-focused cooperatives are of a fundamentally different nature.

Theoretical socio-economic approaches towards cooperatives have traditionally highlighted two concepts which are considered crucial for understanding the distinctive nature of cooperative organizations (Draheim 1952; Toennies 1963; Valentinov 2004; Nilsson and Hendrikse 2011). On the one hand, there is a wide range of literature relating cooperatives to trust as a coordination mechanism. On the other hand, cooperatives are described as organizations building on social capital. Consequently, Christoforou and Davis (2014, p. 6) recently called for fine-grained research on how social capital, trust and reciprocity mutually affect each other. Therefore, this

paper aims at answering the following research question: How do the member coordination and therefore the interplay of social capital, trust and reciprocity differ between member-focused cooperatives and third-party-focused cooperatives? By linking the concepts of social capital – taking into account different types (bridging/linking and bonding social capital) – and trust – relating different types of trust (namely instrumental, maxim-based and norm-based) to different reciprocity types (namely transaction-specific, relation-specific and generalized) – we aim at distinguishing member-focused and third-party-focused cooperatives on the basis of their respective coordination mechanisms.

Thus, this article contributes to the ongoing discussion on the theoretical conceptualization of both cooperatives and social enterprises (Borzaga and Tortia 2006; Defourny and Nyssens 2010; Kerlin 2006; Poledrini 2015; Valentinov 2013; Young and Lecy 2014). Previous work has shown that neo-institutional economic theory, although widely applied in nonprofit studies, can neither adequately explain the existence of traditional, nor third-party-focused cooperatives as a type of social enterprise (Borzaga and Defourny 2001; Laville and Nyssens 2001; Dart 2004). Building on this fundamental insight, this article continues the work of previous studies on nonprofit and civil society governance in general (Steen-Johnson, Eynaud and Wijkstroem 2011; Stone and Ostrower 2007), the nature of member-focused and third-party-focused cooperatives in particular (Lang and Roessl 2011; Somerville and McElwee 2011; Roessl and Hatak 2014), and their relation to social capital and trust (Degli Antoni and Portale 2011).

The conceptual argument that we want to put forward in this paper is that different forms of cooperatives have to be seen as organizations built on different types of trust and social capital. Our integrative approach aims at overcoming the risks of conceptualizing cooperatives as either purely trust-based or purely social-capital-based organizations. Rather, we hypothesize that there are linkages between these two conceptualizations. However, in order to make this relation explicit, it is necessary to untangle the concept of social capital and distinguish between a structural (or network-based) and a relational dimension rather than taking the alternative view

that social capital is more of an overarching concept consisting of both networks and trust. Likewise, it is necessary to distinguish between different types of trust as mechanisms for the coordination of member relationships in cooperatives by referring to the theory of reciprocity.

On the practical level, a key implication of our research is that the emergence of social enterprises poses challenges and opportunities for traditional cooperative and nonprofit organizations and sector umbrellas, as well as for legislative and regulatory bodies in these fields. On the other end of the spectrum, a similar broadening of the cooperative identity has earlier been discussed as an “economization” or “degeneration” dynamic where cooperatives have gradually taken on elements of capitalistic enterprises. The emergence of third-party-focused cooperatives, as a type of social enterprise, might thus seem like a re-orientation towards the original cooperative identity but at the same time requires a re-positioning towards the nonprofit sector.

In the next section, we first discuss the specific nature of cooperatives from a social capital perspective. Thereby, we will see that the relational dimension of social capital points to the relevance of social and moral obligations for coordinating relations between cooperative members. In section 3, based on the analysis of the deficits of the classical coordination mechanisms, market and hierarchy, trust is presented as a third ideal-typical mechanism for coordinating cooperative relations. The discussion of the effectiveness of trust concerning the establishment and maintenance of highly complex transaction relationships based on long-term objectives leads to the delineation of relationship-related maxim-based trust and context-related norm-based trust. In section 4, the two separate streams of discussion on social capital and on trust in the context of cooperatives are related to each other. Section 5 discusses implications regarding the role of the cooperative governance mechanisms for mobilizing and sustaining social capital. Finally, section 6 summarises the key findings on the interplay between reciprocity, trust and social capital, and section 7 provides conclusions.

Social Capital in the Context of Cooperative Organizations

Despite the lack of an established definition, there is consensus among scholars that on a generic level, the notion of social capital broadly refers to resources embedded in networks which can be mobilized through social interactions and can thus lead to potential benefits for individual and collective actors (Brunie 2009). As a societal resource, social capital also enables collective action towards the public interest, e.g. at the neighborhood level (Degli Antoni and Portale 2011; Evers 2001; Gonzales 2007; Pestoff 2009; Putnam 2000). It can even create positive spillover effects on the local and regional economy and civil society (Putnam 1993; Spear 2000).

As a cooperative can be regarded as a social group or community (Draheim 1952; Kogut and Zander 1996; Nilsson and Hendrikse 2011; Toennies 1963), this article focuses on social capital in cooperative organizations, where it facilitates collective action and can thus be beneficial to both the individual members and the organization (Andrews 2010; Leana and Van Buren 1999; Nahapiet and Ghoshal 1998).

For analytical purposes, we can distinguish between the following two components of social capital in cooperative organizations, which are in reality, however, inseparable¹ (Andrews 2010; Krishna and Uphoff 2002; Moran 2005; Nahapiet and Ghoshal 1998; Rutten, Westlund and Boekema 2010; Valentinov 2004): First, the *structural dimension* refers to the connections among the members of a cooperative organization and especially highlights the role of network configuration (Nahapiet and Ghoshal 1998). These linkages provide cooperative members with access to other members and the possibility of resource exchange. While some authors highlight the role of a dense network structure for social capital building (e.g. Coleman 1990), others point to the significance of structural holes and weak ties (e.g. Burt 1992). This pure structuralist position, however, is not concerned with the “quality” of social relations and the question of what is underlying the resource exchanges in a network (Rutten, Westlund and Boekema 2010). Second, the *relational dimension* reflects “the capability for resource exchange” (Andrews 2010, p. 586) between the members of a cooperative organization. The transactions occurring between

individuals in a cooperative network have to be coordinated by reciprocal social and moral obligations in order for resource mobilization and capitalization on social relations to be enabled (Adler and Kwon 2002).

Member-based organizations, such as cooperatives, obtain vital resources from their members (Valentinov 2004; Zerche, Schmale and Blome-Drees 1998), such as access to buying markets in the case of marketing cooperatives, to sales markets in the case of purchasing cooperatives, to workforce in the case of producer cooperatives, etc. Therefore, founding and maintaining a cooperative requires a group of potential members who would be able to provide the organization with resources which they would access and mobilize through social ties. Thus, cooperatives, in contrast to for-profit organizations, can be seen as organizations that mainly build on the social capital of all their members, who are highly committed to a common goal, as their key resource (Spear 2000; Valentinov 2004). Even in for-profit enterprises, social capital can exist to a certain degree with the benefit of reducing transaction costs (Laville and Nyssens 2001). However, given their goal-structure, for-profit organizations have to count first and foremost on the owners and central managers to mobilize social capital to improve productivity, as it is in their financial interests.

The important role that social capital plays for organizational development in the cooperative sector is shared with social enterprises in their ideal-typical form (Laville and Nyssens 2001). However, a key difference is that the latter have a wider community orientation in providing their services, especially when compared to traditional member-focused cooperatives. Laville and Nyssens (2001, p. 328) highlight that this focus on public benefit in their economic projects makes social enterprises attractive for stakeholders who are driven by the idea to contribute to society as a whole which in turn provides the organization with “specific forms of mobilisation of social capital such as involvement of volunteers, donations and development of local partnership.” In contrast, cooperatives are limited to their member base when mobilizing social capital, at least in their traditional form as organizations primarily oriented towards the creation

of member benefits. And it is only by strengthening the social group of members that cooperatives can make the mobilization and use of social capital for organizational purposes possible (Bowles and Gintis 2002; Enjolras 2009; Evers 2001; Zhao 2011). Nonprofit research has early on highlighted this social embeddedness of cooperative organizations, as put forward in Draheim's concept of the dual nature of cooperatives (Draheim 1952) or Toennies' work on *Gemeinschaft* and *Gesellschaft* (Toennies 1963). Scholars writing in the tradition of these classic sociological approaches also stress the concept of trust when referring to the dominant behavioral logic in cooperative societies (Nilsson and Hendrikse 2011).

However, previous studies have not been able to entirely clarify the relationship between trust and social capital (see e.g. Adler and Kwon 2002; or Brunie 2009) – two concepts which appear to be crucial to understand the distinctive nature of cooperative organizations. For some authors trust is a source (Knoke 1999; Putnam 1993), for others it is an outcome (Lin 1999) of social capital. Some authors even equate trust with social capital (Fukuyama 1995) or consider it a specific type of social capital (Coleman 1988). Therefore, we further delve into the specific nature of trust as the central coordination mechanism in cooperative relationships, and its linkages with the structural and relational dimensions of social capital², by referring to reciprocity considerations, with a norm of reciprocity making “two interrelated [...] demands: (1) people should help those who have helped them, and (2) people should not injure those who have helped them” (Gouldner 1960, p. 171, cit. Belmi and Pfeffer 2015, p. 37).

Trust in the Context of Cooperative Organizations

The advantages of cooperative relationships arise from the functioning coordination of the members' behavior. Only when each member in a cooperative relationship forgoes short-term opportunism in favor of common long-term objectives can the cooperative relationship lead to advantages for each member (Hatak, Fink and Frank, 2015; Roessl 1996). How is it, then, that members are able to ensure that their partners in the cooperative relationship behave according to

the rules stipulated *ex ante*? In this regard three ideal-typical governance mechanisms can be distinguished: (1) spontaneous behavioral governance on the basis of the market mechanism, (2) hierarchical or mechanistic governance on the basis of regulation and sanctions, and (3) heterarchical governance on the basis of trust (Adler 2001; Osterloh and Weibel 2000).

From the transaction cost economics perspective, market and hierarchy possess “distinctive strengths and weaknesses, where hierarchy enjoys the advantage for managing cooperative adaptations and the market for autonomous adaptations” (Williamson 2005, p. 6). The coordination capacity of the market mechanism originates from the self-organization of the individual market members, who strive to realize their own interests as quickly as possible. Thus, this mechanism overcomes any uncertainty about the other’s behavior as the actors know that the other will behave opportunistically. However, as the ideal-typical market functions only in timeless situations (simultaneous exchange), the market mechanism focuses on the pursuit of short-term advantages, as it cannot ensure that the exchange partners will refrain from behaving opportunistically. Thus, it cannot be the dominant coordination mechanism in long-term transaction relationships such as in cooperatives (see e.g. Ouchi 1979).

Behavioral determination by hierarchical governance (Noorderhaven 1995) is equally limited with respect to cooperatives. Credible sanction threats require sufficient sanctioning powers on the part of the members, as well as the *ex-ante* knowledge of the desired behavior of the partner and its consequences (Eberl 2004) and the *ex-post* observation of the actual behavior (Spremann 1990). However, due to the heterarchical structure of the ideal-typical cooperative, “hierarchy”, or in other words, overcoming the short-term orientation of market-based interactions by restricting the leeway for opportunistic behavior, is not applicable as a dominant coordination mechanism within cooperatives.

Therefore, as classical transaction-cost theory refers to market and hierarchy as the only ideal-typical coordination mechanisms, it encounters difficulties in explaining the governance of cooperative relationships (Roessl 1996; Valentinov 2004). Cooperatives can be sufficiently

coordinated neither – due to their long-term orientation – by the market mechanism nor – due to the absence of a hierarchical authority – by hierarchy (Lang and Roessler 2011; Moulaert and Nussbaumer 2005). Therefore, a mechanism other than market or hierarchy has to be in place for coordinating the relationships between cooperative members (Furubotn 2001).

As an alternative mechanism, ‘trust’ (e.g., Adler 2001; Fink and Kessler 2010; Hatak and Roessler 2011; Sabatini, Modena and Tortia, 2014) has been suggested for coordinating highly complex and uncertain cooperative relationships. In order to further develop the line of argument of Osterloh and Weibel (2000), and respectively Adler (2001), a differentiation between instrumental, maxim-based and norm-based trust is required.

Instrumental trust can be specified as behavior based on rational considerations (Luhmann 2000). The trustor trusts the trustee because of control and sanctions. Any behavior other than the expected is less attractive for the trustee. In other words, the costly sanctions in place for a breach of trust exceed any potential benefits from opportunistic behavior, reducing the uncertainties regarding the behavior of the other (Bradach and Eccles 1989) – thus, the trustor’s trust is legitimated. Based on inequity aversion models of fairness and other reciprocity approaches (Bolton and Ockenfels 2000; Fehr and Schmidt 1999), relationships based on instrumental trust are based on transaction-specific reciprocity – i.e. the transaction partners evaluate the single transaction solely on the basis of transaction-related costs and benefits (Falk and Fischbacher 2006). Such relationships can also be considered as “cooperation without any benevolence.” In these relationships, generosity and gratitude are not at all the underlying motivations of the actors (Bruni 2008; Poledrini 2015). Or, as Falk and Fischbacher (2006, p. 310) put it, “Distributive consequences of an action alone trigger reciprocal actions.” Therefore, some have raised the issue that instrumental trust is not trust at all, or that it could be seen as trust at its narrowest bandwidth (Luhmann 2000; Sitkin and Roth 1993). As instrumental trust requires controllable behavior and definable outcomes (for contingent claim contracts, see Heide and John 1988), this mechanism is confronted with organizational failure in the case of complex cooperative arrangements. Thus,

instrumental trust is congruent with hierarchical coordination. Therefore, we refrain from using the term “instrumental trust” but rather use the label “hierarchical coordination.”

Referring to maxim-based trust, the trustor neglects the existing latitude of opportunistic behavior of the other, because the actors expects the other not to strive for short-term advantages but to behave as agreed upon in order not to endanger the potential valuable relationship. These mutual expectations arise from the actors’ evaluations of the relationship based on relation-related costs and benefits, i.e. relation-specific reciprocity³ (Enjolras 2009, p. 764). From a reciprocity theory perspective (Falk and Fischbacher 2006), relation-specific reciprocity shows clear similarities to Fehr, Fischbacher and Gaechter’s (2002) concept of “strong reciprocity” (see also Gintis 2000). Strong reciprocal relationships are driven by the expectations of the actors that they will receive something in return through the relation (Fehr, Fischbacher and Gaechter 2002). Consequently, the transaction partners behave in a cooperative manner, that is, in a way that will prove beneficial only if the other does not prey upon them but rather responds cooperatively in turn.

Therefore, maxim-based trust can help to coordinate relationships effectively within member-focused cooperatives. Repeated cycles of exchange and successful fulfillment of expectations strengthen the willingness of the parties to rely upon each other and increase the resources brought into the relationship (Lewicki and Bunker 1996; Rousseau, Sitkin, Burt and Camerer 1998). Therefore, information available to the trustor from within the relationship itself constitutes the basis of maxim-based trust (e.g. if the partner behaves as agreed upon, even if there is leeway for opportunistic behavior, this can be taken as a signal that this partner – due to the perceived future value of the relation – does not want to endanger it). The amount of knowledge necessary for trust, based upon experiences gained within relationships, is somewhere between complete information and complete ignorance (Simmel 1964). In the case of complete information, there is no need to trust, and with complete ignorance there is no basis upon which to trust (McAllister 1995). Basically, maxim-based trust draws its coordinating power from the

advantages that the cooperative arrangement bestows upon its members. Whereas hierarchical coordination (instrumental trust) is based on cost-effectiveness considerations, maxim-based trust involves a broader array of resource exchange including socio-emotional support. Repeated interactions create expanded resources, including shared information, status and concern. These expanded resources can, in turn, enable the development of a psychological identification (Gaertner, Dovidio and Bachmann 1996).

The member-focused cooperative's members may come to characterize themselves in relation to the other members, or to the organization, as "we", and may derive expressive benefits from being part of their cooperative (Borzaga and Sforzi 2014). In that way, the value of the members' relationships with their cooperative increases, thus benefitting the level of maxim-based trust. Nevertheless, as maxim-based trust is based on the value of the relationship, it cannot explain the behavior of cooperatives that focus on the advantages to third parties.

In contrast, norm-based trust is intrinsically motivated: The trustor trusts the trustee because of collective norms embedded in a concrete spatio-temporal context. A norm is a socially defined right of others to control an individual's action (Coleman 1990). The societal embeddedness of cooperative members has already been recognized in the classic cooperative literature by Draheim (1952), who mentions shared religious beliefs, neighborhood attachment, class consciousness and even philanthropic values as crucial factors that connect the members of cooperatives (Valentinov 2004). In this regard, shared norms can be seen as "a basis for trust between actors, because they imply a high degree of taken-for-grantedness which enables shared expectations even between actors who have no [...] history of interaction. In the first instance, this approach is based on the phenomenological assumption that actors are 'looking at the world from within the natural attitude' (Schuetz 1932, 1967, p. 98) relying on [...] the validity of institutionalized rules, roles and routines" (Moellering 2006, p. 373). Therefore, norm-based trust involves the development of shared interpretative schemes and place-bounded norms to which the actors refer in cooperative interaction (Sydow 1998). In this regard, Sabatini, Modena and Tortia

(2014), in an empirical study conducted in the Italian province of Trento, show that cooperatives with their democratic and participatory structures, unlike any other type of enterprise, allow their members to share and diffuse feelings of social trust and norms of reciprocity. In fact, norm-based trust stems from the trustor's and trustee's interpretation of the social context in which their relation is embedded (Moellering 2005). Citizenship behavior from the cooperative's members is characteristic of norm-based trust (Eisenberger, Huntington, Hutchinson and Sowa 1986; Organ 1990). This is because norms are more likely to be internalized when an individual clearly identifies with a particular group (Berg, Dickhaut and McCabe 1995). Thus, only norm-based trust can coordinate relations within third-party-focused cooperatives and explain community-based enterprises. In fact, by building a community-based sense of reciprocity among their members, these cooperatives enable cooperative and trustworthy behavior in the social environment (Borzaga and Sforzi 2014).

Thus, and in line with Poledrini (2015), we argue that norm-based trust is based on generalized reciprocity (sometimes labeled as “unconditional reciprocity”, see Bruni 2008). Generalized reciprocity as the prevailing mechanism underlying norm-based trust relationships in third-party-focused cooperatives “constitutes the solidary extreme, referring to transactions that are altruistic” (Enjolras 2009, p. 764), so that a trustor can trust a trustee without establishing trust in a specific personal relationship (Zucker 1986). In contrast to transaction- and relation-specific reciprocity, the reward for generalized reciprocal behavior is provided by the actor himself, through his behavior aimed at benefitting third parties. Furthermore, generalized reciprocal behavior can coexist with specific reciprocity, which also comes closer to the nature of real-world cooperatives (Bruni 2008; Bruni and Porta 2007; Poledrini 2015).

The Synergy Perspective on Social Capital and Trust in Cooperatives

Bringing in the concept of trust and distinguishing between maxim-based and norm-based trust benefits our understanding of how transaction relationships in different types of cooperatives

are ideal-typically coordinated. In order to build social capital, trust-based transaction relationships have to be embedded in a specific network structure (Andrews 2010; Krishna and Uphoff 2002; Moran 2005; Nahapiet and Ghoshal 1998; Rutten, Westlund and Boekema 2010; Valentinov 2004). In this regard, previous empirical research has shown that trust is significantly and positively correlated with social capital in the context of Putnam-esque associations (Sabatini, Modena and Tortia 2014). Consequently, and given their distinctive coordination mechanisms, we would assume that different types of cooperatives – namely member-focused and third-party-focused cooperatives – ideal-typically correspond to specific network structures of members, and consequently constitute different types of social capital. In this respect, network studies of social capital provide further insights (e.g. Burt 1997; Hurlbert, Haines and Beggs 2000). Building on the work of Granovetter (1973), we can distinguish between dense, closed social networks, made up of “strong” ties between individuals (i.e. a high number of linkages), and open networks that have fewer linkages between individuals, and are thus made up of so-called “weak” ties and “bridges” between disconnected groups (Brunie 2009; Burt 1992).

As we have already shown, maxim-based trust – the ideal-typical coordination mechanism for member relationships in member-focused cooperatives – stems from the relationship itself and, more specifically, the repeated cycles of personal exchange that strengthen the willingness of the parties to rely upon each other (Lewicki and Bunker 1996; Rousseau et al. 1998). Thus, we would assume that dense social networks are a characteristic feature of member-focused cooperatives. In contrast, norm-based trust – ideal-typically coordinating the member relationships in third-party-focused cooperatives – is intrinsically motivated and draws its coordinating power from the socio-spatial context of relationships, implying that a trustor can trust a trustee without establishing trust in a specific personal relationship (Zucker 1986). Thus, we would assume that third-party-focused cooperatives, compared to member-focused cooperatives, are characterized by a relatively open network structure in which members have fewer interconnections or “weak” ties and maintain “bridges” to external actors (Somerville and McElwee 2011).

The relation between network structure and trust can be highlighted with an empirical case from Germany where a resident cooperative resisted the closure of a public pool in their neighborhood (Lang and Roessl 2011). The initiative started as a small group of activists which was committed to establishing a community-based project together. However, they soon realized that only through a broadening of their supporter base, they could acquire the necessary monetary and self-help resources to turn the public pool into a real community-led project. Over time, fundraising efforts and volunteering elements have enlarged the cooperative network and established bridging relations between members of different social groups within the neighborhood and even beyond its borders.

As a consequence, drawing on the terminology from development studies (Gittell and Vidal 1998; Putnam 2000; Woolcock and Narayan 2000), we can characterize the social capital that is constituted in member-focused cooperatives as “bonding”, and in third-party-focused cooperatives as “bridging” and “linking”. The “bridging” social capital of third-party-focused cooperatives, which refers to horizontal linkages, is supported by empirical observations that such cooperatives are multi-stakeholder organizations, in the sense of building on community relations and associative networks as well as on the integration of users, thus being very much intertwined with their local socio-spatial and institutional context (e.g. Lang and Roessl 2011; Spear and Bidet 2005; Poledrini 2015). An important contribution in this vein is an empirical study conducted by Degli Antoni and Portale (2011) that shows the effect of inclusive participatory governance in Italian social cooperatives on employees’ and members’ social capital. In fact, “the more the number of stakeholders’ categories involved in the ownership of the cooperative are, the higher the impact is on social capital” (Degli Antoni and Portale 2011, p. 572). In contrast, linking social capital refers to vertical linkages (Gittell and Vidal 1998; Putnam 2000; Woolcock 2001) between an organization and people in positions of influence and power in society, such as resource holders in regional and national infrastructure bodies, or social investors (Lang and Novy 2014). This is clearly a form of social capital as these resources are not mobilized from

market interactions but rather from trust-based network relations. Linking social capital is crucial in the nonprofit sector, given its reliance on institutional fund-raising, but also for social enterprises, such as third-party-focused cooperatives, which develop network contacts to local and regional politicians and to external social investors or donors (Hulgard and Spear 2006; Lehner 2011). This can be exemplified with reference to an empirical study of two community cooperatives in the English housing and regeneration context (Somerville and McElwee 2011). The community organizations have benefitted from establishing vertical linkages with sympathetic local government bodies and even central government representatives which, for instance, facilitated the transfer of valuable assets into the cooperative organization. The important role of linking social capital in third-party-focused cooperatives can further be stressed by empirical evidence from Austria (Lang and Roessl 2011). Given the clear link between economic and social goals, in the establishment of a community-based village shop, local and regional government representatives supported the project financially as well as with the provision of infrastructure. Although this cooperative practice was embedded in traditional structures of a rural community, associated with bonding social capital, “bridges” within the neighborhood had to be established with the help of local politicians in order to integrate enough volunteer support and donations for the cooperative. The empirical evidence supports our theoretical assumptions that third-party-focused cooperatives are characterized by an open network structure which helps mobilizing different types of social capital resources. Nevertheless, the concrete configuration of the cooperative network and its resources seems to depend on the context of the place and the community.

Implications Regarding the Role of the Cooperative Governance Mechanisms for Mobilizing and Sustaining Social Capital

In development studies, social capital is seen as a collective, bottom-up resource that has to be stimulated and sustained through formal governance institutions (Brunie 2009; Evans 1997;

Woolcock and Narayan 2000). Social capital has to be cultivated since, in contrast to financial capital for example, it is a highly context-specific organizational asset that cannot easily be transferred through time and space (Andrews 2010; Arregle, Hitt, Sirmon and Very 2007; Burt 1997; Leana and Van Buren 1999). Thus, the social capital of cooperative organizations represents a common-pool resource requiring institutional and governance support (Brandsen and Helderman 2012; Ostrom 1990; Ostrom and Ahn 2003). In fact, the governance structure of a cooperative (Williamson 1996) is essential for the pooling of the social resources of its members through the strengthening of the reciprocity norms that underlie the trust-based relations in cooperatives (Enjolras 2009; Sabatini, Modena and Tortia 2014; Spear 2000; Valentinov 2004).

Thus, in member-focused cooperatives, heterarchical coordination through maxim-based trust is rooted in the relation-specific reciprocity stemming from the perceived value of the relationship for the individual member (e.g. because the credit cooperative granted me a loan in difficult economic circumstances, I return the favor through my continuing engagement in the member-focused credit cooperative; I am active in the credit cooperative because I expect this engagement to pay off in that the cooperative will support me in the future). For instance, Roessl and Hatak (2014), analyzing the ways an Austrian cooperative bank generates value for its members, show that members derive value from their membership by having a say in the cooperative. Furthermore, perceived membership value is derived from the credit cooperative's social commitment towards the community. These perceived membership-related benefits induce members to behave in a cooperative manner, that is, they stick to their membership and do not switch to other, potentially more favorable providers of financial services.

In contrast, in the case of third-party-focused cooperatives, the external, community orientation is based to a large extent on generalized reciprocity norms, which allow for the mobilizing and pooling of resources such as donations or voluntary work that are typical of nonprofit organizations. Generalized reciprocity can be understood as a motivation to repay generous actions by carrying out actions that are generous or helpful for others (e.g. having

perceived that I have gained societal support, I return the favor through my engagement in a third-party-focused cooperative helping homeless people.). By emphasizing their ideal-typical coordination mechanism, third-party-focused cooperatives have the potential to realize desired socio-political effects, which Putnam (2000) prominently highlights for the case of third-sector organizations in his social capital theory (Evers 2001). Thus, besides pursuing economic objectives, the distinct governance structure based on generalized reciprocity enables third-party-focused cooperatives to achieve civic objectives as well. Specifically, Degli Antoni and Portale (2011) show empirically that it is the inclusive participatory governance that positively influences the creation of social capital in terms of generalized trust, which, in our terminology, can be interpreted as generalized reciprocity that provides the basis for norm-based trust. Furthermore, taking external stakeholders on governance boards is a way to promote bridging social capital (Hulgard and Spear 2006). Involving the users, workers and employees as well as an active promotion of volunteering and of norms of reciprocity and solidarity within the cooperative and beyond its borders in the wider community (Spear and Bidet 2005) provides third-party-focused cooperatives with access to resources (Laville and Nyssens 2001; Somerville and McElwee 2011).

A governance structure based on maxim-based trust / relation-specific reciprocity for member-focused cooperatives and norm-based trust / generalized reciprocity for third-party-focused cooperatives allow these organizations to approach and develop the resources necessary for achieving their specific objectives. This is what, in fact, constitutes the competitive advantage of both member-focused and third-party-focused cooperative organizations, as these governance mechanisms allow them to mitigate the coordination failures of hierarchy and the market (Enjolras 2009; Evers 2001).

As norms are more likely to be internalized in the case of strong identification with a group, growing cooperatives are threatened by governance failure (Ben-Ner and Van Hoomissen 1994). The potential advantages of social-capital-based organizations only hold true for a moderate

number of members (Bowles and Gintis 2002). With greater size, cooperatives are threatened by “degeneration” towards either hierarchical organizations or corporate enterprises (Purtschert 1990; Valentinov 2004), implying changes in the organizational culture as outlined by Hogeland (2006) for US agricultural cooperatives. Specifically, due to the increasing difficulties regarding democratic decision making and the generation of returns on investment in social capital, members rather confine themselves to acting as investors or customers (Somerville 2007). In this case, the malfunctioning of democratic participation mechanisms, adequate control mechanisms, intrinsic incentives for members and the opportunistic behavior of board and management undermine the cooperative organization’s reputation for being trustworthy and weaken the governing potential of reciprocity norms (Enjolras 2009). However, it is exactly this trustworthiness that is critical for the mobilization of social capital. In this regard, Nilsson, Kihlén and Norell (2009), in an empirical survey among members of a large traditional Swedish cooperative, show that when members consider the cooperative to be too large and too complex to be controlled by the membership, the members’ satisfaction and involvement levels decrease, which in turn is associated with poor trust in the cooperative board and management. In line with this result, Feng, Friis and Nilsson (2015) show empirically that the larger the cooperative, the lower the social capital, expressed in terms of members’ involvement, trust, satisfaction, and loyalty.

Nevertheless, Nilsson, Kihlén and Norell (2009) outline that there might be a possibility that the members, in spite of their dissatisfaction, low involvement and lack of trust in the leadership, are willing to remodel the cooperative to attain more member control. This consideration can be complemented with the earlier mentioned case of a large Austrian cooperative bank – a member-focused cooperative – which manages to perpetuate a rather vivid democracy as shown by Roessl and Hatak (2014). In the course of a differentiated cooperative member-relationship management, the cooperative’s implementation of CSR measures creates ideational benefits leading to strong organizational commitment and to the enhancement of the membership value, despite the bank’s

considerable size. However, this case shows the need for traditional member-focused cooperatives to support member interaction and group identification in order to sustain the key resource of bonding social capital.

However, third-party-focused cooperatives are confronted with different size-related challenges, as a case of an energy cooperative from Germany suggests (Reiner, Lang and Roessl 2014). Although the cooperative has economic goals, members are primarily intrinsically motivated and do not necessarily expect economic returns from the membership. The normative member commitment stems from a collectively shared “green identity”. The governance challenge for this third-party-focused cooperative is to constantly address members’ intrinsic motives and reciprocal social and moral obligations regarding the wider community in order to maintain high levels of member participation as well as volunteering and donating for the cooperative.

Key Findings on the Interplay between Reciprocity, Trust and Social Capital for Cooperative Member Relationships

The aim of this paper has been to relate the concepts of trust and social capital to each other in order to provide a more holistic understanding of the cooperative enterprise. We have argued that there is a relation between specific types of trust that create “the capability for resource exchange” (Andrews 2010, p. 586), reciprocity and social capital, and these constellations in turn characterize specific ideal-typical cooperative settings. More specifically, distinguishing between maxim-based and norm-based trust – which are respectively the result of reliable adherence to relation-specific reciprocity and generalized reciprocity norms – benefits our understanding of how trust coordinates the actions of members of different organizational forms of cooperatives that are characterized by specific network configurations that build specific types of social capital. In this regard, we differentiate between dense social networks made up of strong-ties, as in member-focused cooperatives, and open networks made up of weak ties, as in third-party-

focused cooperatives. Consequently, from a synergy perspective of networks and trust, member-focused cooperatives can primarily mobilize bonding social capital, which facilitates collective group action towards the mutual interest. In contrast, third-party-focused cooperatives, as a type of social enterprise, can primarily mobilize bridging and linking social capital, facilitating collective action aimed towards helping third parties and the community interest. Building on previous taxonomies (Enjolras 2009; Poledrini 2015; Valentinov 2004), Table 1 summarizes our discussion on the proposed linkages between the concepts of reciprocity, trust and social capital in order to distinguish between cooperative enterprises on the basis of their respective coordination mechanisms.

Table 1 Ideal-typical Delineation of Organizational Arrangements and their Respective Coordination Mechanisms

Organizational arrangement	single transaction	member-focused cooperatives	third-party-focused cooperatives
Prevailing type of reciprocity	transaction-specific reciprocity	relation-specific reciprocity	generalized reciprocity
Prevailing type of trust	instrumental trust	maxim-based trust	norm-based trust
Prevailing type of social capital	----	bonding social capital	linking / bridging social capital
Network structure	----	closed network structure / strong ties between members	open network structure / weak ties between members

At this point, it should be noted that these considerations are based on ideal-typical constellations. With a view on the cooperative landscape one has to take into account that these constellations overlap, resulting in a variety of mixed forms. For example, there can to some extent be maxim-based trust between strongly tied members of a third-party-focused cooperative, while members of member-focused cooperatives can to some extent develop norm-based trust. The empirical examples provided in the paper seem to support this assumption.

Conclusions

Specific coordination mechanisms and the resulting social capital have to be sustained as they are highly context-specific organizational assets that cannot easily be transferred through time and space. In this respect, we have already outlined some implications of our findings for the role of cooperative organizations as a formal institutional governance arrangement that is designed to enhance the mobilization, reproduction and protection of forms of trust and social capital. In traditional member-focused cooperatives the managerial focus should ideal-typically be on strengthening the perceived value of the relationship for the individual member in order to sustain maxim-based trust which is based on relation-specific reciprocity and which subsequently leads to the mobilization of bonding social capital for the organization. Even with greater size, traditional member-focused cooperatives might be able to sustain bonding social capital through innovative forms of membership value creation as one of the empirical cases in the paper has shown.

In contrast, in third-party-focused cooperatives, generalized reciprocity norms and therefore norm-based trust should be strengthened by the cooperative's management, which allow for mobilizing bridging and linking social capital. This can be done by highlighting the cooperative benefits for the wider community and for the place where the cooperative is situated and supported by different stakeholder groups. The focus on public benefits in their economic

projects makes third-party-focused cooperatives attractive for different stakeholder groups who are driven by the idea to contribute to the community and place.

However, the empirical evidence presented suggests that the reality of cooperative practice is not always that clear-cut. In fact, the findings imply that bonding social capital can play a role for third-party-focused cooperatives too, especially in initial stages. Moreover, in order to keep the traditional cooperative principles of member-ownership and member-control with greater cooperative size alive, strengthening bonding social capital may be still needed to some extent, besides addressing members' intrinsic motives and reciprocal social and moral obligations regarding the wider community. Thus, a central implication is that a critical balance of different forms of trust and social capital in third-party-focused cooperatives can only be achieved and sustained in place-based communities. In general, the right mix of different forms of social capital depends on the concrete context of a community as well as the goals of the cooperative initiative.

The wider implications of our research are that the emergence of social enterprises organized as cooperatives poses challenges and opportunities for traditional cooperative and nonprofit organizations and sector umbrellas, as well as legislative and regulatory bodies in these fields. On the other end of the spectrum, a similar broadening of the cooperative identity has earlier been discussed as an “economization” or “degeneration” dynamic where cooperatives have gradually taken on elements of investor-driven organizations, with trust and social capital losing their importance. The emergence of third-party-focused cooperatives, as a type of social enterprises, might thus well be seen as a re-orientation towards the original cooperative identity but at the same time requires a re-positioning towards the nonprofit sector.

Key implications of our research for the scientific community relate to differentiating between bridging/linking and bonding social capital, and further delineating between different types of trust and reciprocity in order to improve our understanding of the multifaceted reality of the organizational forms that exist in the cooperative landscape. Thus, this paper provides a

theoretical conceptualization of cooperative enterprises by bringing together the social-capital-related and trust-related research in a cooperative context. So far, the cooperative phenomenon has mainly been discussed separately along these two streams.

Based on the framework developed in this paper, member-focused and third-party-focused cooperatives should be analyzed with respect to their coordination mechanisms along the life cycle including growth in terms of member number, so as to bring to light the dynamic interplay of specific reciprocity norms, trust, and social capital. Such preferably qualitative longitudinal research efforts could, finally, lead to a more comprehensive taxonomy of organizational arrangements with respect to their underlying coordination mechanisms.

Furthermore, future research should operationalize the concepts of norm-based and maxim-based trust as well as the associated generalized and relation-specific reciprocity to lay the foundations for quantitative studies testing the findings regarding the differences between member-focused and third-party-focused cooperatives, also for different country and sector contexts which might reveal differences in the interplay of reciprocity norms and trust.

Notes

1 The view that there are essentially two components of social capital is shared by many authors in the field, although the names for these two elements differ. Thus, Grootaert and Bastelaer (2002) distinguish between a structural and a cognitive form, whereas Valentinov (2004), for instance, differentiates between a structural form of social capital and its “content”.

2 Instead of dividing the argument between social capital (as a network concept) and trust in the following paragraphs, one alternative view and line of argument regarding the relationship between social capital, networks and trust would be that social capital is more of an overarching concept. However, as outlined in the introduction, this paper tries to fill a research gap in the literature (Christoforou and Davis 2014) by integrating these two particular approaches towards conceptualizing cooperatives, as either trust-based or social-capital-based organizations. Hence, a division between these two discourses seems to be appropriate in the first step of our argument.

3 In contrast to Enjolras (2009, p. 764), we use the term “relation-specific reciprocity” instead of “balanced reciprocity” to underline the distinct nature of the former in referring to direct exchange relations versus “generalized reciprocity” which refers to compensation for the benefits received from the society and thus justifies altruistic behavior towards others.

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